

## Beacon Weekly Investment Insights

If anyone did not believe that investors cared about what was going on in Washington DC, this week brought about pretty substantial proof. The week started with a pullback in equity indices as the physical infrastructure vote set for the previous Friday and the Federal debt ceiling vote to raise the limit both seemed at an insurmountable impasse. The icing on the market pullback from the previous weekend was another Facebook “whistleblower” which pressured the entire technology sector. Fortunately, on Wednesday, Republicans and Democrats had agreed to an extension of the debt ceiling until December, which triggered a reversal in equity index pricing. For the week, the Dow Jones Industrials rose 1.2%, the S&P 500 rose 0.8%, while the NASDAQ Composite squeaked out a 0.09% rise. Bond yields also climbed with the benchmark 10-Year US Treasury yielding 1.6% at weeks end.

Why is the debt ceiling such an important issue? This concept represents the maximum amount of debt the Department of Treasury can issue in the public markets to essentially pay their bills. Bills such as Social Security, unemployment insurance, payments to Medicaid, and payroll for active duty military personnel are all part of this equation. Not to mention the saying “full faith and credit” of the US Government would be at risk. We have never defaulted on a debt payment and hopefully never will!

As the week progressed and we cleared the debt ceiling hurdle (for now), the focus turned primarily to the jobs market. ADP reported a robust outlook on Wednesday followed by the Commerce Board report on Thursday indicating a decline in claims for unemployment insurance. However, Friday’s Labor Department report, on the headline, was disappointing with creation of only 194,000 jobs versus an estimate for 500,000. Behind the headline, however, we see upwards adjustments to the previous months along with seasonal factors that influence the report and the overall unemployment figure declining to 4.8%. Remember, the Federal Reserve Open Market Committee is tuned into the labor situation as they weigh their decision for tapering their bond purchasing program, which we believe will begin in November.

Inflation is another topic on the minds of investors. Throughout the year we have seen supply chain issues effecting prices of used and new cars, lumber, steel, copper, and labor costs, to name a few. Recently, however, the focus has turned to the energy complex. Here are some facts from the Wall Street Journal: “Crude oil has risen 64% this year to a seven-year high. Natural-gas prices have roughly doubled over the past six months to a seven-year high. Heating oil has risen 68% this year. Prices at the pump are up nearly a dollar over the past 12 months to a national average just over \$3 a gallon. Coal prices are at records”. This is what we have our collective eyes on as it represents the “bad” inflation that socks the spending power from consumers.

Because consumer spending drives about 70% of US economic growth, we pay close attention to the inflation, like energy costs, that hit across the board. We do believe, through deleveraging, wage growth, higher equity markets, and higher real estate prices, that consumers still feel confident in spending. Additionally, COVID 19 cases nationally have been on the decline, which is a positive for spending.

This week, the focus shifts to corporate earnings. Our feeling is that much attention will be paid not to the top line revenue and bottom line earnings numbers, but to the profit margins and outlook. Profit margins are likely to be pressured by input costs, while outlooks for most companies will depend on COVID and supply chain. COVID cases, according to CDC data seems to be on the decline here in the US, but supply issues remain. We will be fine-tuned into the earnings releases and commentary and hope to provide additional insight in our outlook.

This week as a reminder, begins with the bond markets, banks, and Federal Reserve closed on Monday in observance of Columbus Day/Indigenous People Day. Tuesday, the Bureau of Labor Statistics will report the JOLTS number (Job Openings and Labor Turnover Survey) which is forecasted to show 11.1 million job openings.

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Wednesday we will have US consumer price index along with the Federal Reserve's September meeting minutes, along with earnings from JP Morgan. Thursday kicks off with earnings reports from more large financials: Bank of America, Citigroup, Morgan Stanley, and Wells Fargo, along with the Bureau of Labor Statistics report on producer prices. Friday, we will have more earnings from Goldman Sachs, PNC, and Truist Financial, along with US retail sales and University of Michigan consumer confidence.

<b>Market Scorecard:</b>	<b>10/8/2021</b>	<b>YTD Price Change</b>
Dow Jones Industrial Average	34,746.25	13.53%
S&P 500 Index	4,391.34	16.91%
NASDAQ Composite	14,579.54	13.12%
Russell 1000 Growth Index	2,796.92	15.21%
Russell 1000 Value Index	1,581.95	17.21%
Russell 2000 Small Cap Index	2,233.09	13.08%
MSCI EAFE Index	2,269.79	5.69%
US 10 Year Treasury Yield	1.60%	69 basis points
WTI Crude Oil	\$79.35	63.54%
Gold \$/Oz.	\$1,757.13	(7.44%)

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